Sustainability risks and opportunities report

How sustainability risks and opportunities drive Board-level engagement and organisational enhancement
Introduction

Across all industries, Board Directors grapple with the need to define a strategy and implement a plan that answers questions related to sustainability.

The terminology used to describe sustainable business varies by industry, and the relative priority of economic, environmental and social factors is influenced by sector-specific issues.

However, Board Directors need to articulate a vision for how their firm will respond to global consumerism, long-term access to basic resources, social change from urbanisation, environmental and eco-system degradation and the role of big business in society.

The report

This report, independently researched by Verdantix for Wilbury Stratton, explains how today’s sustainability risks and opportunities should affect corporate decisions.

Aims

The purpose of this report is to help Board Directors and senior managers involved in implementing sustainability strategy to better anticipate the organisational enhancements needed to achieve positive business results.
Firms need a sustainable business vision based on sector priorities and aligned with long-term value creation

Gone are the days when the Boards of large, international firms could safely ignore long-term economic issues, environmental performance and social responsibility.

This doesn’t mean that all Board Directors have invested time and energy establishing a long-term vision for ‘sustainable business’. In fact, many firms still operate with out-dated corporate social responsibility plans focused on reputation management with a small group of NGOs, staffed by a single CSR Director.

In the same way that many firms – from banks to chemicals firms and even software providers – were slow to develop and invest in internet strategies, so many large firms are holding back from devising a robust sustainability strategy.

In the minds of many executives, sustainability is still conceived as a future, rather than actual, source of competitive advantage.

The analysis presented in this study shows that putting sustainability strategy on the back burner is not the right decision.

**Why?**

Sustainability is emerging as a source of competitive advantage.

And we believe this trend, concealed in part by the financial crisis and global recession, will strengthen and reach a tipping point of engagement by executives in developed economies in 2013.

From Alcoa to Unilever, from Rio Tinto to PepsiCo, from Shell to Google, enlightened Boards now communicate visions for sustainable business aligned with long-term value creation for their firms (see Figure 1).

**FIGURE 1: Boards need visions for what sustainable business means for their firms**

---

**FIGURE 1:**

- **Sustainability Risks**
- **Sustainability Market Opportunities**
- **Pressure on Board Directors to Act**
- **Firm-Specific Factors**
- **Industry Specific Factors**
- **Sustainable Business Vision**
  - Vision Statement
  - Strategy
  - Targets
  - Implementation
  - Reporting
  - Organisational Enhancement
Risks and opportunities create pressure points which trigger Board-level engagement with sustainability

Hundreds of executives at leading firms now allocate time to devise a fully funded, corporate sustainability strategy. Risks and opportunities create the pressure points that trigger Board Directors to shape and invest in sustainability strategies. These case studies illustrate the reality of corporate commitments.

How sustainability risks put pressure on Board Directors

When **Vedanta**, a basic resources firm with $8bn of revenue and mining operations in Australia, India and Zambia sought to expand the scale of its alumina mining and refining operations in India the firm was required by its primary lender, Standard Chartered, to invest in an independent assessment of sustainability risks.

The study recommended that Vedanta upgrade its corporate governance of sustainability firm-wide and implement much stronger policies and reporting.

The requirement made by Standard Chartered followed a nine-month study by NGO Survival International into Vedanta’s human rights record in India, as well as a rejection of a Vedanta application to expand a Bauxite mine in Orissa by the Indian Environment Minister due to opposition from local tribes.

**PepsiCo**, the iconic $58 billion revenue food and beverages producer, has invested ahead of the curve to manage sustainability risks linked to water scarcity.

As a business critical raw material, water impacts input costs, competitiveness, and the ability to maintain production as well as influencing community relations and brand perception.

In 2009 PepsiCo announced 15 global goals and commitments focused on the sustainable use of water, land, energy and packaging. The firm aims to reduce water usage intensity by 20% between 2006 and 2015 across all manufacturing operations.

**Sustainability risks are growing and getting more attention from executives, investors, lenders and regulators.** Our case studies flag up social responsibility risks that threaten the license to operate a mining operation, risks tied to perceptions of over-consumption of water and reputational risks linked to investments in projects with potentially damaging environmental consequences. The sustainability risk register is, of course, much broader. Additional trends in sustainability risk include risks to financial performance from volatile energy prices, compliance risks triggered by new carbon regulations and risks from product substitution as customers switch to more sustainable alternatives.
**JPMorgan Chase**, a global bank with 2010 revenues of $115bn and 240,000 employees, has acted to incorporate environmental and social risk management into its corporate lending and project finance.

Like virtually all other developed economy banks, *JPMorgan Chase* has signed up to the Equator Principles: a credit risk framework developed by the World Bank for assessing and managing environmental and social risks in project finance transactions with a total capital cost of $10 million or more.

This is just one of the risk management frameworks applied by the bank which has created ‘enhanced risk assessment’ policies for projects which impact or involve primary tropical moist forests, critical habitats, plantations and palm oil.

Many firms in the technology sector have grasped that sustainability market trends are creating a vast innovation opportunity for the sector – from using IP networks to enhance urban development to deploying enterprise-wide software for energy efficiency programmes.

**IBM** is a firm that seeks to shape the sustainability market opportunity.

Its positioning began with the ‘Big Green’ campaign in 2007 and the ongoing ‘Smarter Planet’ positioning which started in 2009.

To capture market opportunities linked to sustainability mega-trends such as urbanisation and energy efficiency, IBM built the Green Sigma industry coalition.

IBM recognised that even a $100 billion revenue firm does not have all the capabilities to meet the sustainability market opportunity.

In 2011 IBM acquired TRIRIGA, a real estate and energy management software firm whose applications have been deployed across New York City’s portfolio of 4,000 buildings with an annual energy spend of $800m.

The size of the sustainability opportunity engages IBM’s Board in decision-making.

*Executive attitudes towards sustainability are gradually changing. For some Board Directors, their muscle memory locks them into thinking of sustainability as a cost centre, a CSR issue replete with commitments to meet climate change goals and make charitable donations to local communities. Our case studies show that firms and sectors staffed with innovative thinkers – IT, high-tech engineering – view sustainability through the lens of market opportunity and value creation. They have the financial data to support this perspective. More recently, firms such as Unilever, as well as their retail customers and competitors such as Nestlé and Procter & Gamble, set out visions for the creation of new markets and business models aligned with sustainability trends. Tangible financial results from these strategic plans will take time to appear. But the direction of travel for some of the world’s leading brand managers is crystal clear.*
Board Directors at firms such as GE and Siemens in the high-tech engineering sector have become deeply involved in establishing a long-term value creation vision linked to sustainability market trends.

In some cases, market-facing strategies such as GE’s ecoMagination are approaching their tenth anniversary.

Siemens, a $76 billion revenue industrial giant has renewable energy as well as building controls business units.

For over 10 years government policy in Europe and the United States, and now in China, has opened up multi-billion dollar markets for wind power and solar power.

The Siemens Board has backed growth with, for example, the October 2009 acquisition of Solel Solar Systems for $418 million.

Additional opportunities are shaped by policies for electrification of urban transport and minimum building energy efficiency standards.

For Siemens this market is not solely about the future. It is also about the past and present: in the 2009/10 financial year Siemens reported $31 billion (€23 billion) of sales for its ‘Environmental Portfolio’.

Paul Polman, the CEO of global food and beverages firm Unilever launched an ambitious sustainability vision in November 2010 called the ‘Unilever Sustainable Living Plan’ focused on growth for employees, suppliers, customers, investors and farmers.

The core idea for Unilever is to increase the quality of life for billions of people (substantiated by the fact that two billion times a day somebody uses a Unilever brand) by integrating sustainability into their products.

Unilever aims to harness the energies of its 163,000 employees by articulating an opportunity for the firm based on the beliefs that:

- consumers and retailers want more sustainable brands
- sustainability fuels innovation and will help Unilever grow new markets
- the plan saves the firm money by reducing energy, packaging and waste
Verdantix market sizing and forecasting puts numbers on these assertions

Expenditure by more than 3,000 firms with annual revenues in excess of $1 billion on 29 different energy, environment and sustainability initiatives will reach $59 billion in 2012 (see Figure 2).

This excludes utility-scale investments in sectors such as offshore wind farms and corporate transactions.

For many firms, an unwillingness or inability to compete in these emerging market segments is as much of a risk to shareholder value as are the direct risks from raw material scarcity or brand damage.

**FIGURE 2: Large firms will spend $59 billion on six categories of sustainability projects in 2012**
Why sustainability pressure points result in organisational enhancements

Both risks and opportunities trigger Boards from multiple sectors to develop a vision for sustainable business and invest in the plan to mitigate sustainability risks and capture market opportunity.

The case studies in this report and broader evidence from Verdantix research identify a wide range of organisational best practices following the launch of a Board-backed sustainability strategy (see Figure 3).

**FIGURE 3: Organisational enhancements to manage sustainability risks and opportunities**

1. Defining sustainability as a multi-year change programme
2. Positioning the CEO as leading the strategy
3. Identifying expertise injections for the executive team
4. Building a core team to act as a catalyst
5. Expanding the commercial delivery team with sustainability expertise
6. Giving problem ownership to senior managers with operational control
7. Putting business development directors to work on sustainability opportunities
8. Engaging HR to identify talent gaps
9. Involving finance and compliance to manage energy and environment risk
10. Competitive benchmarking of human resources in R&D and innovation
Characteristics of operational enhancements

Appointing a portfolio manager to find sustainability market opportunities
Many of the most successful sustainability strategies have started with a commercial thrust co-ordinated by a senior manager creating a ‘virtual’ portfolio of sustainability products and services. Examples include Deloitte, GE, IBM and Siemens.

Creating a Programme Management Office to implement the strategy
For firms with a broad range of energy, environment and sustainability activities, successful execution requires a Programme Management Office staffed by 5 to 25 employees. Examples include Mars and Tesco.

Hiring experts to identify and mitigate sustainability risks
In sectors such as banking, mining, oil and gas, power, utilities and basic resources, organisations need to respond to sustainability risks and compliance requirements which have an increasing impact on a firm’s overall financial performance. Examples include Alcoa, JP MorganChase and SwissRE.

Consolidating sustainability leadership in a single senior role
Sustainability strategies typically include both a corporate component as well as a market-facing component – whether that is sales related or brand related. AECOM, France Telecom and SAP combine the two sets of responsibilities in a ‘Chief Sustainability Officer’ role.

Training product managers and engineers on eco-design principles
More mature sustainability programmes move from selling existing sustainability benefits, such as superior energy efficiency, to training product designers and engineers on eco-design and cradle-to-cradle concepts. Example firms include Alcatel-Lucent, ARUP and InterfaceFLOR.

Targeting business development directors at sustainability
Given that the sustainability market opportunity is not yet well defined, giving seasoned business development directors a bite at the cherry is best practice. Firms succeeding with this approach: Capgemini and Marks & Spencer.

Establishing new business units with a sustainability market focus
Boards with more ambition provide the funds to establish small business units — often starting with just a dozen employees — and then increase investment based on success. Examples of this organisational enhancement are CA Technologies and Eaton.

Turning national CSR roles into a Global Sustainability Director role
A strategic review of sustainability governance often finds that fragmented, national CSR roles hinder the implementation of a global plan. A common best practice is to appoint a Global Sustainability Director with the strongest delivery track record.
Wilbury Stratton comment

Focus on people
This Verdantix report identifies organisational best practices which follow the launch of a Board-backed sustainability strategy.

Anticipated organisational enhancements focus on the evolution of roles and functions in response to strategies.

Suitably qualified individuals will be in high demand and challenging to identify as each company embraces organisational enhancements to suit their culture.

Wilbury Stratton is uniquely placed to identify and approach these individuals.

Industry specialists
Our consultants are industry specialists engaging in regular debate with organisations in each sector.

They gather and cross-reference information on a global basis about people at the forefront of developments in Corporate Sustainability.

The result is a deep understanding of each industry’s sustainability issues, knowledge of how organisations are approaching those issues and insight into the progress and success of sustainability strategies.

Discussion
This report provides a basis for discussion about how your organisation is approaching the mitigation of sustainability risk and capture of market opportunity.

It may highlight competitor initiatives and elements of organisational enhancement relevant to you.

It will focus attention on how the evolution of roles and functions will impact recruitment and redeployment of expertise.

Wilbury Stratton is the leading international Executive Search firm specialising in Corporate Sustainability. We recruit the professionals who develop strategy and make business sense of the sustainability agenda.

For more information and to contact one of our Industry Practice specialists visit: www.wscl.com
About Verdantix

Verdantix is the fastest-growing, independent analyst firm focused on energy, environment and sustainability. Through their global primary research and deep domain expertise Verdantix provides clients with strategic advice, revenue generating services, best practice frameworks, industry connections and competitive advantage.

For more information visit: www.verdantix.com

Vertantix research

Verdantix: Climate Change & Sustainability Spending: How To Size and Forecast The Market
Verdantix UK Climate Change & Sustainability Spending 2009-13
Canadian Study: Verdantix Canadian Sustainable Business Spending 2009-2014
Australian Study: Verdantix Australian Sustainable Business Spending 2009-2014
France Study: Verdantix France Sustainable Business Spending 2009-15